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Office of the
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Consumer Advisory Bulletin- December 2005

Avoid Car-Title Loans

Consumers pay "astronomical" interest rates - and risk losing their vehicle.

Consumers in a difficult financial situation may be tempted to take out a "car-title loan" -- a short-term loan that is backed by the consumer's vehicle as collateral. The Attorney General's Office strongly encourages consumers to avoid car-title loans, which can be very costly and can lead to consumers losing their cars or trucks.

What are "car-title loans"? Car-title loans are small loans "secured" by the consumer's car or truck, usually for \$200 to \$400 or so. The vehicle is "collateral" - and it can be "repossessed" by the lender if the borrower defaults on the loan (fails to make payments.) The lender actually keeps an extra set of keys to the vehicle, and may start repossessing a vehicle if the borrower is late in making even one payment.

Borrowers pay astronomical interest rates: The Attorney General's Office has heard of interest rates up to 360% for Iowa car-title loans. There is no justification for such astronomical interest rates, because the loan is secured by the car or truck. The Attorney General is asking the Legislature to limit car-title loan interest rates to the current limits for other consumer loans (21% or 36%) -- but, right now, there is no limit at all on interest rates for this type of car-title loan.

High interest payments are due repeatedly: If a person borrows \$300 at 360% interest, for example, he or she will have to pay \$44.55 of interest in just fifteen days - and have to pay interest again and again each fifteen days, until the \$300 loan is paid. Many consumers can't pay back the loan right away, and they just pile up repeated interest costs, or take out still more loans. Their financial situation only gets worse and worse.

Consumers face losing their vehicle: The first payment usually is due in 15 days. But if even one payment is late, the lender may start action to repossess, which could occur as quickly as 30 days. Many consumers have lost their cars or trucks.

The best bet for consumers: Avoid car-title loans. Such loans are very costly, and they often sink people deeper into debt. And car-title loans risk people losing their cars. Instead, try to get ahead by saving small amounts each week or month, or go to banks or credit unions or community organizations that offer loans at far better rates. Stay off the "debt treadmill" and don't risk losing your vehicle.

To file a complaint or get more information, contact the Consumer Protection Division, Hoover Bldg., Des Moines, IA 50319. Call 515-281-5926, or toll-free at 1-888-777-4590.

On the web: www.iowaAttorneyGeneral.org

Have an excellent new year.

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